

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Township of Grattan
Kent County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2006

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Grattan, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Township of Grattan, Michigan, as of March 31, 2006, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Grattan, Michigan, as of March 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison schedules, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Township of Grattan, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Board of Trustees
Township of Grattan, Michigan
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Grattan, Michigan, basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

July 17, 2006

BASIC FINANCIAL STATEMENTS

Township of Grattan
STATEMENT OF NET ASSETS
 March 31, 2006

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 881,415	\$ 640,684	\$ 1,522,099
Receivables, net	82,696	69,489	152,185
Prepaid expenses	<u>12,675</u>	<u>5,177</u>	<u>17,852</u>
Total current assets	<u>976,786</u>	<u>715,350</u>	<u>1,692,136</u>
Noncurrent assets:			
Receivables, net	-	200,788	200,788
Capital assets, net of accumulated depreciation	<u>1,435,957</u>	<u>5,884,789</u>	<u>7,320,746</u>
Total noncurrent assets	<u>1,435,957</u>	<u>6,085,577</u>	<u>7,521,534</u>
Total assets	<u>2,412,743</u>	<u>6,800,927</u>	<u>9,213,670</u>
LIABILITIES			
Current liabilities:			
Payables	171,797	85,809	257,606
Current portion of long-term obligations	<u>71,468</u>	<u>40,000</u>	<u>111,468</u>
Total current liabilities	243,265	125,809	369,074
Noncurrent liabilities - long-term obligations	<u>963,282</u>	<u>280,000</u>	<u>1,243,282</u>
Total liabilities	<u>1,206,547</u>	<u>405,809</u>	<u>1,612,356</u>
NET ASSETS			
Invested in capital assets, net of related debt	446,707	5,564,789	6,011,496
Restricted for:			
Public safety	426,397	-	426,397
Public works	62,774	-	62,774
Unrestricted	<u>270,318</u>	<u>830,329</u>	<u>1,100,647</u>
Total net assets	<u>\$ 1,206,196</u>	<u>\$ 6,395,118</u>	<u>\$ 7,601,314</u>

See notes to the financial statements

Township of Grattan
STATEMENT OF ACTIVITIES
Year ended March 31, 2006

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u>
Governmental activities:			
Legislative	\$ 7,109	\$ -	\$ -
General government	306,954	89,037	-
Public safety	188,901	42,435	-
Public works	130,778	109,490	4,118
Community and economic development	4,360	7,275	-
Culture and recreation	51,558	-	-
Interest on long-term debt	37,508	-	-
Total governmental activities	727,168	248,237	4,118
Business-type activities:			
Sewer	544,838	276,873	-
Total primary government	<u>\$ 1,272,006</u>	<u>\$ 525,110</u>	<u>\$ 4,118</u>

General revenues:

Property taxes
Franchise fees
State grants
Investment income

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (7,109)		\$ (7,109)
(217,917)		(217,917)
(146,466)		(146,466)
(17,170)		(17,170)
2,915		2,915
(51,558)		
<u>(37,508)</u>		<u>(37,508)</u>
(474,813)		<u>(423,255)</u>
<u>-</u>	\$ <u>(267,965)</u>	<u>(267,965)</u>
<u>(474,813)</u>	<u>(267,965)</u>	<u>(742,778)</u>
291,450	-	291,450
11,603	-	11,603
242,711	-	242,711
<u>41,542</u>	<u>36,136</u>	<u>77,678</u>
<u>587,306</u>	<u>36,136</u>	<u>623,442</u>
112,493	(231,829)	(119,336)
<u>1,093,703</u>	<u>6,626,947</u>	<u>7,720,650</u>
<u>\$ 1,206,196</u>	<u>\$ 6,395,118</u>	<u>\$ 7,601,314</u>

See notes to the financial statements

Township of Grattan
BALANCE SHEET - governmental funds
 March 31, 2006

	<u>General</u>	<u>Fire operations</u>	<u>Fire equipment</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 254,355	\$ 106,198	\$ 385,136	\$ 135,726	\$ 881,415
Receivables, net	<u>59,619</u>	<u>10,736</u>	<u>5,368</u>	<u>6,973</u>	<u>82,696</u>
Total assets	<u>\$ 313,974</u>	<u>\$ 116,934</u>	<u>\$ 390,504</u>	<u>\$ 142,699</u>	<u>\$ 964,111</u>
LIABILITIES AND FUND BALANCES					
Liabilities - payables	<u>\$ 56,331</u>	<u>\$ 11,574</u>	<u>\$ 69,467</u>	<u>\$ 25</u>	<u>\$ 137,397</u>
Fund balances:					
Reserved for inspections	14,408	-	-	-	14,408
Unreserved	243,235	105,360	321,037	-	669,632
Unreserved, reported in nonmajor - special revenue funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>142,674</u>	<u>142,674</u>
Total fund balances	<u>257,643</u>	<u>105,360</u>	<u>321,037</u>	<u>142,674</u>	<u>826,714</u>
Total liabilities and fund balances	<u>\$ 313,974</u>	<u>\$ 116,934</u>	<u>\$ 390,504</u>	<u>\$ 142,699</u>	<u>\$ 964,111</u>
Total fund balances					\$ 826,714

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial and, therefore, are not reported in the funds. 1,435,957

Prepaid expenses are not a current financial resource and, therefore, are not reported in the fund financial statements. 12,675

Accrued interest on long-term debt is not a financial use and, therefore, is not reported in the fund financial statements (34,400)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,034,750)

Net assets of *governmental activities* (page 5) \$ 1,206,196

See notes to the financial statements

Township of Grattan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended March 31, 2006

	<u>General</u>	<u>Fire operations</u>	<u>Fire equipment</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES					
Taxes	\$ 145,540	\$ 128,509	\$ 64,249	\$ -	\$ 338,298
State grants	246,829	-	-	-	246,829
Licenses and permits	66,038	-	-	-	66,038
Charges for services	31,636	-	-	-	31,636
Interest and rentals	14,624	2,437	21,620	2,242	40,923
Other	11,014	1,019	-	109,490	121,523
Total revenues	<u>515,681</u>	<u>131,965</u>	<u>85,869</u>	<u>111,732</u>	<u>845,247</u>
EXPENDITURES					
Legislative	7,109	-	-	-	7,109
General government	290,056	-	-	-	290,056
Public safety	41,910	118,642	-	-	160,552
Public works	13,783	-	-	116,995	130,778
Community and economic development	51,558	-	-	-	51,558
Recreation and culture	3,640	-	-	-	3,640
Debt service:					
Principal	19,500	-	27,423	38,000	84,923
Interest	10,188	-	1,580	640	12,408
Capital outlay	8,324	28,837	658,009	-	695,170
Total expenditures	<u>446,068</u>	<u>147,479</u>	<u>687,012</u>	<u>155,635</u>	<u>1,436,194</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	69,613	(15,514)	(601,143)	(43,903)	(590,947)
OTHER FINANCING SOURCES					
Proceeds from debt issuance	-	-	825,000	45,500	870,500
NET CHANGES IN FUND BALANCES	69,613	(15,514)	223,857	1,597	279,553
FUND BALANCES - BEGINNING	<u>188,030</u>	<u>120,874</u>	<u>97,180</u>	<u>141,077</u>	<u>547,161</u>
FUND BALANCES - ENDING	<u>\$ 257,643</u>	<u>\$ 105,360</u>	<u>\$ 321,037</u>	<u>\$ 142,674</u>	<u>\$ 826,714</u>

See notes to the financial statements

Township of Grattan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended March 31, 2006

Net change in fund balances - total governmental funds (page 8)	\$ 279,553
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Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Capital assets:

Assets acquired	687,932
Provision for depreciation	(44,657)

Long-term debt - principal repayment

Proceeds from long-term debt	(870,500)
Principal repayment	84,923

Net increase in prepaid expenses	342
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Net increase in accrued interest payable	<u>(25,100)</u>
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Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ 112,493</u>
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See notes to the financial statements

Township of Grattan
STATEMENT OF NET ASSETS - proprietary fund
March 31, 2006

	<u>Sewer</u>
ASSETS	
Current assets:	
Cash	\$ 311,033
Receivables, net	69,489
Prepaid expenses	<u>5,177</u>
Total current assets	<u>385,699</u>
Noncurrent assets:	
Receivables, net	200,788
Cash reserved for debt service	329,651
Capital assets, net of accumulated depreciation	<u>5,884,789</u>
Total noncurrent assets	<u>6,415,228</u>
Total assets	<u>6,800,927</u>
LIABILITIES	
Current liabilities:	
Payables	85,809
Current portion of long-term obligations	<u>40,000</u>
Total current liabilities	125,809
Noncurrent liabilities - long-term obligations	<u>280,000</u>
Total liabilities	<u>405,809</u>
NET ASSETS	
Investment in capital assets, net of related debt	5,564,789
Unrestricted	<u>830,329</u>
Total net assets	<u>\$ 6,395,118</u>

See notes to the financial statements

Township of Grattan
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - proprietary fund
Year ended March 31, 2006

	<u>Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 225,104
Permits, fees and other	<u>51,769</u>
Total operating revenues	<u>276,873</u>
OPERATING EXPENSES	
Personnel costs	5,894
Professional and contractual services	114,175
Operations and maintenance	217,262
Supplies	1,089
Insurance	7,626
Utilities and telephone	24,933
Depreciation	138,987
Administrative fees	<u>21,690</u>
Total operating expenses	<u>531,656</u>
Operating loss	<u>(254,783)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	36,136
Interest expense	<u>(13,182)</u>
Total nonoperating revenues	<u>22,954</u>
CHANGE IN NET ASSETS	(231,829)
NET ASSETS - BEGINNING	<u>6,626,947</u>
NET ASSETS - ENDING	<u>\$ 6,395,118</u>

See notes to the financial statements

Township of Grattan
STATEMENT OF CASH FLOWS - proprietary funds
Year ended March 31, 2006

	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 257,747
Payments to vendors and suppliers	(350,105)
Payments to employees	<u>(4,990)</u>
Net cash used in operating activities	<u>(97,348)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal collections on special assessments	57,536
Special assessments interest	13,992
Principal payments on long-term debt	(40,000)
Interest payments on long-term debt	<u>(14,582)</u>
Net cash provided by capital and related financing activities	<u>16,946</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	32,572
Interest received	<u>22,144</u>
Net cash provided by investing activities	<u>54,716</u>
NET DECREASE IN CASH	(25,686)
CASH - BEGINNING	<u>666,370</u>
CASH - ENDING	<u><u>\$ 640,684</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (254,783)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	138,987
Increase in receivables	(19,126)
Increase in prepaid expense	(140)
Increase in payables	<u>37,524</u>
Net cash used in operating activities	<u><u>\$ (97,538)</u></u>

See notes to the financial statements

Township of Grattan
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Grattan, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) *Measurement focus, basis of accounting, and financial statement presentation (continued):*
State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Operations Fund accounts for the financial resources used for the operational costs of the Township's fire department. Revenues are primarily derived from special assessments.

The Fire Equipment Fund accounts for the financial resources used for the major equipment and capital costs of the Township's fire department. Revenues are primarily derived from special assessments.

The Township reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the Township's sewage collection systems.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Township reports a single fiduciary fund, its Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

i) *Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) *Receivables* - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) *Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	15 - 30 years
Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Infrastructure	10 - 75 years

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township considers property taxes levied December 1 to be revenues of the current period.

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	Capital outlay	4,550	8,324	3,774

NOTE 3 - CASH:

At March 31, 2006, the Township's cash is as follows:

<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Total</u>
\$ 881,415	\$ 640,684	\$ 1,522,099

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At March 31, 2006, \$1,324,874 of the Township's bank balances of \$1,524,874 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables, as of year end, for the government's individual major and nonmajor funds, in the aggregate, are as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Inter- governmental</i>	<i>Totals</i>
Governmental funds:					
General	\$ 8,122	\$ 11,116	\$ -	\$ 40,381	\$ 59,619
Fire Operations	-	10,736	-	-	10,736
Fire Equipment	-	5,368	-	-	5,368
Nonmajor funds	-	6,973	-	-	6,973
Totals	<u>\$ 8,122</u>	<u>\$ 34,193</u>	<u>\$ -</u>	<u>\$ 40,381</u>	<u>\$ 82,696</u>
Proprietary fund:					
Sewer	<u>\$ 33,299</u>	<u>\$ -</u>	<u>\$ 236,978</u>	<u>\$ -</u>	<u>\$ 270,277</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,788</u>	<u>\$ -</u>	<u>\$ -</u>

All receivables are considered fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2006, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 37,337	\$ -	\$ -	\$ 37,337
Construction in progress	-	686,846	-	686,846
Subtotal	<u>37,337</u>	<u>686,846</u>	<u>-</u>	<u>724,183</u>
Capital assets being depreciated:				
Buildings and improvements	464,500	-	-	464,500
Equipment	88,526	1,086	-	89,612
Vehicles	507,500	-	-	507,500
Subtotal	<u>1,060,526</u>	<u>1,086</u>	<u>-</u>	<u>1,061,612</u>
Less accumulated depreciation for:				
Buildings and improvements	138,676	12,542	-	151,218
Equipment	25,955	6,740	-	32,695
Vehicles	140,550	25,375	-	165,925
Subtotal	<u>305,181</u>	<u>44,657</u>	<u>-</u>	<u>349,838</u>

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Total capital assets being depreciated, net	\$ 755,345	\$ (43,571)	\$ -	\$ 711,774
Governmental activities capital assets, net	\$ 792,682	\$ 643,275	\$ -	\$ 1,435,957
Business type activity:				
Sewer system and improvements	\$ 8,939,800	\$ -	\$ -	\$ 8,939,800
Equipment	6,897	-	-	6,897
Subtotal	8,946,697	-	-	8,946,697
Less accumulated depreciation for:				
Sewer system and improvements	2,914,278	131,780	-	3,046,058
Equipment	8,643	7,207	-	15,850
Subtotal	2,922,921	138,987	-	3,061,908
Business type activity capital assets, net	\$ 6,023,776	\$ (138,987)	\$ -	\$ 5,884,789

Depreciation expense was charged to governmental functions of the Township as follows:

	<u>Governmental activities</u>
General government	\$ 15,462
Public safety	28,475
Culture and recreation	720
Total	\$ 44,657

At March 31, 2006, the Township has a remaining \$146,608 commitment on a \$833,455 construction contract.

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM OBLIGATIONS:

At March 31, 2006, long-term liabilities are comprised of the following individual issues:

Governmental activities:

Installment purchase agreement - bank, limited tax general obligation, annual installments of \$75,243, including interest at 4.20%; final payment due June 1, 2020 \$ 825,000

Lake improvement bond - bank, issued in anticipation of the collection of special assessments, annual installments of \$11,375, plus interest at 4.54%; final payment due June 1, 2009 45,500

Note payable - bank, site improvements loan, dated April 1, 1998, annual installments of \$9,000 to \$17,000, plus interest at 5.45%; final payment due 69,000

Note payable - bank, office construction loan, dated November 1, 1997, annual installments of \$8,250 to \$17,000, plus interest at 5.49%; final payment due July 2012 95,250

Total governmental activities long-term obligations 1,034,750

Business-type activity:

Note payable - bank, sewer improvement loan, dated April 28, 2003, annual installment of \$40,000, plus interest at 4.0%, final payment due May 2014 320,000

Total long-term obligations \$ 1,354,750

Long-term obligation activity for the year ended March 31, 2006, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Governmental activities:					
Notes payable	\$ 211,173	\$ 825,000	\$ 46,923	\$ 989,250	\$ 60,093
Bonds payable	-	45,500	-	45,500	11,375
Total governmental activities	211,173	870,500	46,923	1,034,750	71,468
Business-type activity:					
Note payable	<u>360,000</u>	<u>-</u>	<u>40,000</u>	<u>320,000</u>	<u>40,000</u>
Total long-term obligations	<u>\$ 571,173</u>	<u>\$ 870,500</u>	<u>\$ 86,923</u>	<u>\$ 1,354,750</u>	<u>\$ 111,468</u>

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM DEBT (Continued):

At March 31, 2006, debt service requirements are follows:

<u>Year ended</u> <u>March 31,</u>	<u>Governmental activities</u>		<u>Business-type activity</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 71,468	\$ 44,724	\$ 40,000	\$ 12,956
2008	76,923	42,417	40,000	11,312
2009	78,699	38,852	40,000	9,696
2010	80,550	35,211	40,000	8,080
2011	72,854	31,495	40,000	6,464
2012 - 2020	<u>654,256</u>	<u>152,277</u>	<u>120,000</u>	<u>9,996</u>
Totals	<u>\$ 1,034,750</u>	<u>\$ 344,976</u>	<u>\$ 320,000</u>	<u>\$ 58,504</u>

NOTE 7 - PAYABLES:

Payables as of year end, for the government's individual major and nonmajor funds, in the aggregate, are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Accrued liabilities</u>	<u>Totals</u>
Governmental funds:			
General	\$ 44,225	\$ 12,106	\$ 56,331
Fire Operations	5,615	5,959	11,574
Fire Equipment	69,467	-	69,467
Nonmajor funds	<u>25</u>	<u>-</u>	<u>25</u>
Total	<u>\$ 119,332</u>	<u>\$ 18,065</u>	<u>\$ 137,397</u>
Proprietary fund:			
Sewer	<u>\$ 74,269</u>	<u>\$ 11,540</u>	<u>\$ 85,809</u>

NOTE 8 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Township maintains two defined contribution pension plans. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan state statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. Elected officials and the fire chief are covered under one plan. The Township's appointed officials and employees, including volunteer firemen, are included under a second plan. The Township contributes 10% of covered salaries for both plans. The Township's contributions are fully vested immediately. The Township is not a trustee of the plans, nor is the Township responsible for investment management of plan assets.

The Township made required contributions of \$15,274 during the year ended March 31, 2006.

Township of Grattan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability up to \$2,000,000, property and casualty, and workers' compensation are managed through purchased commercial insurance.

NOTE 10 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2006, is as follows:

Revenues	\$ 42,435
Expenses	<u>39,403</u>
Excess of revenues over expenses	<u>\$ 3,032</u>

NOTE 11 - CONTINGENCY:

A corporation has contested several zoning-related issues by bringing a legal complaint against the Township. The Township has chosen to contest the complaint and has incurred legal fees, which are being shared by a neighboring township, in the process of defending itself in court. Various other costs, including the repayment of plaintiff attorney fees and interest, may be charged to the Township. The outcome of the litigation has not been determined.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Grattan
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES:				
Taxes	\$ 139,900	\$ 139,900	\$ 145,540	\$ 5,640
Licenses and permits	72,800	72,800	66,038	(6,762)
State grants	246,200	246,200	246,829	629
Charges for services	9,440	31,130	31,636	506
Interest and rentals	4,500	4,500	14,624	10,124
Other	9,000	9,000	11,014	2,014
Total revenues	<u>481,840</u>	<u>503,530</u>	<u>515,681</u>	<u>12,151</u>
EXPENDITURES:				
Legislative - Township Board	<u>7,102</u>	<u>7,102</u>	<u>7,109</u>	<u>(7)</u>
General government:				
Supervisor	20,004	20,004	19,378	626
Elections	5,563	5,563	1,732	3,831
Assessor	33,223	33,223	31,630	1,593
Clerk	35,794	35,794	34,467	1,327
Board of Review	913	913	560	353
Treasurer	38,407	38,407	36,555	1,852
Building and grounds	5,000	5,000	4,605	395
Cemetery	5,530	5,530	2,931	2,599
General administration	56,478	56,478	75,835	(19,357)
Professional services	68,800	68,800	66,114	2,686
Other	35,935	35,845	16,249	19,596
Total general government	<u>305,647</u>	<u>305,557</u>	<u>290,056</u>	<u>15,501</u>
Public safety:				
Building inspections	40,000	40,000	39,403	597
Safety board	406	406	135	271
Fire board	2,030	2,030	2,372	(342)
Total public safety	<u>42,436</u>	<u>42,436</u>	<u>41,910</u>	<u>526</u>

Township of Grattan**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued):				
Public works - streets and bridges	<u>\$ 37,000</u>	<u>\$ 37,000</u>	<u>\$ 13,783</u>	<u>\$ 23,217</u>
Community and economic development:				
Planning and zoning	<u>38,955</u>	<u>49,200</u>	<u>49,385</u>	<u>(185)</u>
Farmland preservation	<u>44,400</u>	<u>5,000</u>	<u>2,173</u>	<u>2,827</u>
Total community and economic development	<u>83,355</u>	<u>54,200</u>	<u>51,558</u>	<u>2,642</u>
Recreation and culture:				
Museum	<u>1,000</u>	<u>1,000</u>	<u>1,518</u>	<u>(518)</u>
Parks and recreation	<u>3,200</u>	<u>3,200</u>	<u>2,122</u>	<u>1,078</u>
Total recreation and culture	<u>4,200</u>	<u>4,200</u>	<u>3,640</u>	<u>560</u>
Debt service:				
Principal	<u>19,500</u>	<u>19,500</u>	<u>19,500</u>	<u>-</u>
Interest	<u>10,200</u>	<u>10,200</u>	<u>10,188</u>	<u>12</u>
Capital outlay	<u>4,550</u>	<u>4,550</u>	<u>8,324</u>	<u>(3,774)</u>
Total expenditures	<u>513,990</u>	<u>484,745</u>	<u>446,068</u>	<u>38,677</u>
NET CHANGES IN FUND BALANCES	<u>(32,150)</u>	<u>18,785</u>	<u>69,613</u>	<u>50,828</u>
FUND BALANCES - BEGINNING	<u>188,030</u>	<u>188,030</u>	<u>188,030</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 155,880</u>	<u>\$ 206,815</u>	<u>\$ 257,643</u>	<u>\$ 50,828</u>

Township of Grattan

BUDGETARY COMPARISON SCHEDULE - Fire Operations Fund

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES:				
Taxes	\$ 130,000	\$ 130,000	\$ 128,509	\$ (1,491)
Interest	1,000	1,000	2,437	1,437
Other	-	-	1,019	1,019
Total revenues	<u>131,000</u>	<u>131,000</u>	<u>131,965</u>	<u>965</u>
EXPENDITURES:				
Public safety:				
Salaries	56,300	56,300	61,294	(4,994)
Payroll taxes	780	780	902	(122)
Education and training	8,000	8,000	2,351	5,649
County fire assessment	8,000	8,000	6,386	1,614
Contracted services	5,400	5,400	5,834	(434)
Insurance	12,060	12,060	10,478	1,582
Pension contribution	4,700	4,700	4,158	542
Repairs and maintenance	2,000	2,000	12,305	(10,305)
Building and grounds	2,000	2,000	855	1,145
Supplies	12,650	12,650	8,114	4,536
Telephone	1,000	1,000	1,149	(149)
Utilities	3,500	3,500	4,229	(729)
Other	3,100	3,100	587	2,513
Total public safety	<u>119,490</u>	<u>119,490</u>	<u>118,642</u>	<u>848</u>
Capital outlay	<u>100,000</u>	<u>100,000</u>	<u>28,837</u>	<u>71,163</u>
Total expenditures	<u>219,490</u>	<u>219,490</u>	<u>147,479</u>	<u>72,011</u>
NET CHANGES IN FUND BALANCES	(88,490)	(88,490)	(15,514)	72,976
FUND BALANCES - BEGINNING	<u>120,874</u>	<u>120,874</u>	<u>120,874</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 32,384</u>	<u>\$ 32,384</u>	<u>\$ 105,360</u>	<u>\$ 72,976</u>

Township of Grattan
BUDGETARY COMPARISON - Fire Equipment Fund
Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES:				
Taxes	\$ 62,800	\$ 62,800	\$ 64,249	\$ 1,449
Interest	<u>175</u>	<u>175</u>	<u>21,620</u>	<u>21,445</u>
Total revenues	<u>62,975</u>	<u>62,975</u>	<u>85,869</u>	<u>22,894</u>
EXPENDITURES:				
Debt service:				
Principal	27,423	27,423	27,423	-
Interest	1,602	1,602	1,580	22
Capital outlay	<u>15,000</u>	<u>843,855</u>	<u>658,009</u>	<u>185,846</u>
Total expenditures	<u>44,025</u>	<u>872,880</u>	<u>687,012</u>	<u>185,868</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,950	(809,905)	(601,143)	208,762
OTHER FINANCING SOURCES				
Proceeds from debt issuance	<u>-</u>	<u>825,000</u>	<u>825,000</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	18,950	15,095	223,857	208,762
FUND BALANCES - BEGINNING	<u>97,180</u>	<u>97,180</u>	<u>97,180</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 116,130</u>	<u>\$ 112,275</u>	<u>\$ 321,037</u>	<u>\$ 208,762</u>

SUPPLEMENTARY INFORMATION

Township of Grattan**COMBINING BALANCE SHEET - nonmajor governmental funds**

March 31, 2006

	<i>Big Pine Island Lake</i>	<i>Crooked Lake</i>	<i>Cowan Lake</i>	<i>Round Lake</i>	<i>Totals</i>
ASSETS					
Cash	\$ 54,348	\$ 54,554	\$ 14,545	\$ 12,279	\$ 135,726
Receivables, net	<u>4,178</u>	<u>1,514</u>	<u>1,281</u>	<u>-</u>	<u>6,973</u>
Total assets	<u>\$ 58,526</u>	<u>\$ 56,068</u>	<u>\$ 15,826</u>	<u>\$ 12,279</u>	<u>\$ 142,699</u>
LIABILITIES AND FUND BALANCES					
Liabilities - payables	\$ -	\$ -	\$ 25	\$ -	\$ 25
Fund balances - unreserved, undesignated	<u>58,526</u>	<u>56,068</u>	<u>15,801</u>	<u>12,279</u>	<u>142,674</u>
Total liabilities and fund balances	<u>\$ 58,526</u>	<u>\$ 56,068</u>	<u>\$ 15,826</u>	<u>\$ 12,279</u>	<u>\$ 142,699</u>

Township of Grattan**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - nonmajor governmental funds**

Year ended March 31, 2006

	<i>Big Pine Island Lake</i>	<i>Crooked Lake</i>	<i>Cowan Lake</i>	<i>Round Lake</i>	<i>Totals</i>
REVENUES					
Interest	\$ 918	\$ 1,199	\$ 103	\$ 22	\$ 2,242
Other	<u>31,468</u>	<u>18,453</u>	<u>29,294</u>	<u>30,275</u>	<u>109,490</u>
Total revenues	<u>32,386</u>	<u>19,652</u>	<u>29,397</u>	<u>30,297</u>	<u>111,732</u>
EXPENDITURES					
Public works	22,667	15,184	61,126	18,018	116,995
Debt service:					
Principal	-	-	38,000	-	38,000
Interest	<u>-</u>	<u>-</u>	<u>640</u>	<u>-</u>	<u>640</u>
Total expenditures	<u>22,667</u>	<u>15,184</u>	<u>99,766</u>	<u>18,018</u>	<u>155,635</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,719	4,468	(70,369)	12,279	(43,903)
OTHER FINANCING SOURCES					
Proceeds from debt issuance	<u>-</u>	<u>-</u>	<u>45,500</u>	<u>-</u>	<u>45,500</u>
NET CHANGE IN FUND BALANCES	9,719	4,468	(24,869)	12,279	1,597
FUND BALANCES - BEGINNING	<u>48,807</u>	<u>51,600</u>	<u>40,670</u>	<u>-</u>	<u>141,077</u>
FUND BALANCES - ENDING	<u>\$ 58,526</u>	<u>\$ 56,068</u>	<u>\$ 15,801</u>	<u>\$ 12,279</u>	<u>\$ 142,674</u>